

**Financial Statements**

**Village of Shepherd**

**February 28, 2005**



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Shepherd</b>	County <b>Isabella</b>
Audit Date <b>2/28/05</b>	Opinion Date <b>5/25/05</b>	Date Accountant Report Submitted to State: <b>8/29/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>ROSLUND, PRESTAGE AND COMPANY, PC</b>			
Street Address <b>308 GRATIOT AVENUE</b>	City <b>ALMA</b>	State <b>MI</b>	ZIP <b>48801</b>
Accountant Signature <i>Roslund Prestage &amp; Company P.C.</i>		Date <b>8/29/05</b>	

Village of Shepherd  
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## INDEPENDENT AUDITOR'S REPORT

Village of Shepherd  
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd (the Village) as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages I-II and the budgetary comparison information on pages 26-29 are not a required part of the basic financial statements but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

May 25, 2005

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

VILLAGE OF SHEPHERD  
Management's Discussion and Analysis

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Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances.

Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased 1% from a year ago - increasing from \$2,908,361 to \$2,937,596. In contrast, last year's net assets decreased 13.5%. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities decreased by \$35,416 during the year (3% decrease). The net assets of the business-type activities increased by \$64,651 during the year (4% increase).

The table below shows a condensed statement of net assets as of February 28, 2005:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current Assets	\$1,580,266	\$281,822	\$1,862,088
Noncurrent Assets	360,290	3,106,491	3,466,781
Total Assets	1,940,556	3,388,313	5,328,869
Current Liabilities	666,704	184,569	851,273
Non-current Liabilities	-	1,540,000	1,540,000
Net Assets:			
Invested in Capital Assets, Net	360,290	1,386,491	1,746,781
Restricted	395,140	-	395,140
Unrestricted	518,422	277,253	795,675
Total net assets	\$1,273,852	\$1,663,744	\$2,937,596

The current level of unrestricted net assets for our governmental activities stands at \$518,422, or about 63% of expenses.

Expenditures of the governmental funds decreased by about \$580,808 during the year, which was expected from the budget that was set.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 95% of Village residents, through the Village sewage treatment plant.

VILLAGE OF SHEPHERD  
Management's Discussion and Analysis

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The Village's Funds

Our analysis of the Village's major funds begins on page 3, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property taxes.

The General Fund pays for most of the Village's governmental services. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific capital outlay approved by the Village Board.

General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the budget to take into account events during the year. There were no significant changes, other than storm/sewer projects which were approved from our Public Improvement monies. Budget-to-actual statements are shown on pages 26-29 of the report. Total expenditures for the governmental funds were \$36,716 under budget.

Capital Asset and Debt Administration

At the end of 2005, the Village had \$3,466,781 invested in a broad range of capital assets, including buildings, police, and water and sewer lines. In addition, the Village has invested significantly in major and local roads within the Village. These assets are not reported in the Village's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2005-2006 calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than by inflation, before considering new property additions.

Contacting Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village at 251 W. Wright Avenue, Shepherd, Michigan, 48883. The Village phone number is (989) 828-5278.



**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

Village of Shepherd  
Statement of Net Assets  
February 28, 2005

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$785,648	\$242,515	\$1,028,163
Accounts receivable, net	748,653	28,507	777,160
Due from other governmental units	45,965	-	45,965
Inventory	-	10,800	10,800
Total current assets	1,580,266	281,822	1,862,088
Noncurrent assets			
Capital assets - depreciable, net	360,290	3,106,491	3,466,781
Total assets	1,940,556	3,388,313	5,328,869
<b>Liabilities</b>			
Current liabilities			
Accounts payable	7,616	4,195	11,811
Accrued wages and other payroll liabilities	5,080	374	5,454
Deferred revenue	654,008	-	654,008
Current portion of long-term debt	-	180,000	180,000
Total current liabilities	666,704	184,569	851,273
Noncurrent liabilities			
Capital lease	-	1,540,000	1,540,000
<b>Net Assets</b>			
Invested in capital assets, net of related debt	360,290	1,386,491	1,746,781
Restricted for capital projects	117,195	-	117,195
Restricted for debt service	277,945	-	277,945
Unrestricted	518,422	277,253	795,675
Total net assets	\$1,273,852	\$1,663,744	\$2,937,596

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Activities  
For the year ended February 28, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities
Governmental activities						
Legislative	\$25,262	-	-	-	(\$25,262)	-
General government	82,698	\$49,657	-	-	(33,041)	-
Public safety	157,342	-	-	-	(157,342)	-
Public works	326,223	-	-	-	(326,223)	-
Recreation and culture	4,019	-	-	-	(4,019)	-
Capital outlay	56,002	-	-	-	(56,002)	-
Debt service	82,445	208,570	-	-	126,125	-
Other expenditures	83,086	-	-	-	(83,086)	-
Total governmental activities	817,077	258,227	-	-	(558,850)	-
Business-type activities						
Water and sewer	236,427	130,336	-	-	-	(\$106,091)
Total	\$1,053,504	\$388,563	-	-	(558,850)	(106,091)
General revenues and transfers						
Taxes						
State shared revenues					299,493	299,493
Unrestricted investment earnings					267,682	267,682
Miscellaneous revenues					9,927	2,939
Transfers					69,328	7,803
					(122,996)	160,000
Total general revenues and transfers					523,434	170,742
Change in net assets					(35,416)	64,651
Net assets - beginning of year					1,309,268	1,599,093
Net assets - end of year					\$1,273,852	\$1,663,744
						\$2,937,596

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

Village of Shepherd  
Balance Sheet  
Governmental Funds  
February 28, 2005

	Major Funds						Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	Capital Projects	
<b>Assets</b>							
Cash and cash equivalents	\$230,605	\$130,022	\$58,571	\$66,784	\$182,471	\$117,195	\$785,648
Accounts receivable, net	12,508	-	-	265	735,880	-	748,653
Due from other governmental units	13,295	14,050	5,005	-	13,615	-	45,965
Prepaid items	-	-	-	-	-	-	-
Total assets	<u>\$256,408</u>	<u>\$144,072</u>	<u>\$63,576</u>	<u>\$67,049</u>	<u>\$931,966</u>	<u>\$117,195</u>	<u>\$1,580,266</u>
<b>Liabilities</b>							
Accounts payable	\$3,120	\$1,749	\$1,355	\$1,392	-	-	\$7,616
Accrued wages and other payroll liabilities	1,643	973	730	1,734	-	-	5,080
Deferred revenues	-	-	-	-	\$654,008	-	654,008
Total liabilities	<u>4,763</u>	<u>2,722</u>	<u>2,085</u>	<u>3,126</u>	<u>654,008</u>	<u>-</u>	<u>666,704</u>
<b>Fund balances</b>							
Reserved for debt service	-	-	-	-	277,945	-	277,945
Reserved for capital projects	-	-	-	-	-	\$117,195	117,195
Reserved for prepaid items	-	-	-	-	-	-	-
Unreserved	251,645	141,350	61,491	63,923	13	-	518,422
Total fund balances	<u>251,645</u>	<u>141,350</u>	<u>61,491</u>	<u>63,923</u>	<u>277,958</u>	<u>117,195</u>	<u>913,562</u>
Total liabilities and fund balances	<u>\$256,408</u>	<u>\$144,072</u>	<u>\$63,576</u>	<u>\$67,049</u>	<u>\$931,966</u>	<u>\$117,195</u>	<u>\$1,580,266</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the year ended February 28, 2005

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Total fund balance - governmental funds	\$913,562
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	823,130
Deduct: accumulated depreciation	(462,840)
	<hr/>
Net assets of governmental activities	<u><u>\$1,273,852</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended February 28, 2005

	Major Funds					Total Governmental Funds
	General	Major Street	Local Street	Police	Debt Service	Capital Projects
<b>REVENUES</b>						
Property taxes	\$299,493	-	-	-	-	-
Special assessment	-	-	-	-	\$141,240	-
State shared revenues	156,937	\$81,724	\$29,021	-	-	-
Charges for services	49,657	-	-	-	67,330	-
Interest and rents	2,994	1,441	362	\$665	3,368	\$1,097
Miscellaneous	26,778	-	-	42,550	-	-
Total revenues	535,859	83,165	29,383	43,215	211,938	1,097
<b>Expenditures</b>						
Legislative	25,262	-	-	-	-	-
General government	77,862	-	-	-	-	-
Public safety	44,149	-	-	110,308	-	-
Public works	140,595	84,967	63,995	-	-	-
Recreation and culture	4,019	-	-	-	-	-
Capital outlay	56,002	-	-	-	-	-
Debt service	-	-	-	-	82,445	-
Other expenditures	82,186	-	-	-	300	600
Total expenditures	430,075	84,967	63,995	110,308	82,745	600
Excess of revenues over (under) expenditures	105,784	(1,802)	(34,612)	(67,093)	129,193	497
Other financing sources (uses)						
Transfers in	49,899	-	42,546	93,000	-	35,935
Transfers (out)	(105,873)	(20,604)	-	-	(160,000)	(57,899)
Total other financing sources (uses)	(55,974)	(20,604)	42,546	93,000	(160,000)	(21,964)
Excess of revenue and other sources over (under) expenditures and other uses	49,810	(22,406)	7,934	25,907	(30,807)	(21,467)
Fund balance - beginning of year	201,835	163,756	53,557	38,016	308,765	138,662
Fund balance - end of year	\$251,645	\$141,350	\$61,491	\$63,923	\$277,958	\$117,195
						\$913,562

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the year ended February 28, 2005

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Net change in fund balances - total governmental funds	\$8,971
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	<u>(44,387)</u>
Change in net assets of governmental activities	<u><u>(\$35,416)</u></u>

The notes to the financial statements are an integral part of this statement.



Village of Shepherd  
Combining Statement of Net Assets  
Proprietary Funds  
February 28, 2005

	Major Funds		Total Enterprise Funds
	Sewer Fund	Water Fund	
<b>Assets</b>			
Cash and cash equivalents	\$124,806	\$117,709	\$242,515
Accounts receivable	10,331	18,176	28,507
Inventory	-	10,800	10,800
Total current assets	135,137	146,685	281,822
Property, plant and equipment, net	1,516,443	1,590,048	3,106,491
Total assets	<u>\$1,651,580</u>	<u>\$1,736,733</u>	<u>\$3,388,313</u>
<b>Liabilities</b>			
Accounts payable	\$429	\$3,766	\$4,195
Accrued wages and other payroll liabilities	340	34	374
Current portion of long-term debt	180,000	-	180,000
Total current liabilities	180,769	3,800	184,569
Capital lease	1,540,000	-	1,540,000
Total liabilities	1,720,769	3,800	1,724,569
<b>Net assets</b>			
Invested in capital assets, net of related debt	(203,557)	1,590,048	1,386,491
Unrestricted	134,368	142,885	277,253
Total net assets	(69,189)	1,732,933	1,663,744
Total liabilities and net assets	<u>\$1,651,580</u>	<u>\$1,736,733</u>	<u>\$3,388,313</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Combining Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the year ended February 28, 2005

	Major Funds		Total Enterprise Funds
	Sewer Fund	Water Fund	
Operating revenues			
Service charges	\$41,514	\$70,678	\$112,192
User fees	2,060	4,084	6,144
Hydrant rental	-	12,000	12,000
Miscellaneous	-	-	-
Total operating revenues	<u>43,574</u>	<u>86,762</u>	<u>130,336</u>
Operating expenses			
Salaries and wages	10,398	20,999	31,397
Fringe benefits	788	1,631	2,419
Supplies	2,305	17,879	20,184
Contracted services	17,909	15,783	33,692
Utilities	2,238	8,184	10,422
Rentals	-	5,738	5,738
Repairs and maintenance	-	6,480	6,480
Depreciation	55,593	55,770	111,363
Miscellaneous	6,481	8,251	14,732
Total operating expenses	<u>95,712</u>	<u>140,715</u>	<u>236,427</u>
Operating income (loss)	(52,138)	(53,953)	(106,091)
Non-operating revenues (expenses)			
Interest income	1,699	1,240	2,939
Other	37	7,766	7,803
Total non-operating revenues (expenses)	<u>1,736</u>	<u>9,006</u>	<u>10,742</u>
Other financing sources (uses)			
Operating transfers in (out)	<u>160,000</u>	<u>-</u>	<u>160,000</u>
Net income	109,598	(44,947)	64,651
Net assets - beginning of year	<u>(178,787)</u>	<u>1,777,880</u>	<u>1,599,093</u>
Net assets - end of year	<u>(\$69,189)</u>	<u>\$1,732,933</u>	<u>\$1,663,744</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Combining Statement of Cash Flows  
Proprietary Funds  
For the year ended February 28, 2005

	Major Funds		Total Enterprise Funds
	Sewer Fund	Water Fund	
Cash flows from operating activities:			
Receipts from customers	\$42,751	\$85,674	\$128,425
Payments to suppliers / outsiders	(28,598)	(59,893)	(88,491)
Payments to employees	(11,186)	(22,630)	(33,816)
Net cash provided by operating activities	2,967	3,151	6,118
Cash flows from non-capital financing activities:			
Operating transfers in	180,000	-	180,000
Operating transfers (out)	(20,000)	-	(20,000)
Net cash provided by non-capital financing activities	160,000	-	160,000
Cash flows from capital and related financing activities:			
Purchases of fixed assets	-	-	-
Principal payments	(180,000)	-	(180,000)
Net cash provided by capital and related financing activities	(180,000)	-	(180,000)
Cash flows from investing activities:			
Interest income	1,699	1,240	2,939
Other	37	7,766	7,803
Net cash provided by investing activities	1,736	9,006	10,742
Net increase (decrease) in cash and cash equivalents	(15,297)	12,157	(3,140)
Cash and cash equivalents - beginning of year	140,103	105,552	245,655
Cash and cash equivalents - end of year	<u>\$124,806</u>	<u>\$117,709</u>	<u>\$242,515</u>
Cash flows from operating activities:			
Income from operations	(\$52,138)	(\$53,953)	(\$106,091)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	55,593	55,770	111,363
(Increase) decrease in:			
Accounts receivable	(823)	(1,088)	(1,911)
Increase (decrease) in:			
Accounts payable	231	2,745	2,976
Accrued expenses	104	(323)	(219)
Net cash provided by operating activities	<u>\$2,967</u>	<u>\$3,151</u>	<u>\$6,118</u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The Village of Shepherd (the Village) is a General Law Village incorporated under PA 3 of 1895. The Village operates under a 7-member elected Village Council and provides a wide range of municipal services to Village residents. The accompanying financial statements present the Village and its component units, entities for which the government is considered financially accountable. The reporting entity of the Village excludes the Shepherd Tri-Township Fire Department in accordance with the criteria established by the National Council on Governmental Accounting Statements Number 3. This entity is considered a joint venture of the local units involved.

### Jointly Governed Organization

The Village, in conjunction with Coe, Lincoln, and Chippewa Townships, entered into an agreement to operate the Shepherd Tri-Township Fire Department. Its purpose is to provide fire protection to the residents in the tri-township area. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Village Statement Number 14.

Based on the application of these criteria, the financial statements of the Shepherd Tri-Township Fire Department, a joint venture which operates autonomously under a service agreement among the participating units, are not included in these financial statements.

### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Village of Shepherd  
Notes To The Financial Statements

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Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year-end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Shepherd  
Notes To The Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village are charges to customers for water, sewer, and trash services. Operating expenses for the enterprise funds include the cost of administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fund Accounting**

The financial activities of the Village are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Village uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Village that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

#### Governmental Funds

*General Fund* – This fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in other funds.

Village of Shepherd  
Notes To The Financial Statements

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*Special Revenue Funds* - The special revenue funds account for the revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

*Debt Service Funds* - The debt service fund is used to record special assessments collected, interest, and other revenue for payment of principal, interest, and other expenditures on the Storm Water Separation Project debt.

*Capital Projects Fund* - The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds.

Proprietary Funds

*Water and Sewer Funds* - These funds report operations that provide water and sewer services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Management has decided to classify all governmental and proprietary funds as major funds.

In addition to the governmental and proprietary funds the Village has the following other funds:

Agency Fund

The Village maintains agency funds to account for property tax collections and payroll related withholdings.

**Budgetary Data**

Formal budgetary control is implemented for all required funds and the budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. The budget is adopted at the function level. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted. The Village does not maintain a formalized encumbrance accounting system.



Village of Shepherd  
Notes To The Financial Statements

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**Cash and Cash Equivalents**

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments in certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

**Inventories**

The Village generally does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Village of Shepherd  
Notes To The Financial Statements

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### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings & Improvements	40 – 50
Machinery & Equipment	5 – 40
Vehicles	7 – 10

### Deferred Revenue

Deferred revenues arise when the Village receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Governmental Funds – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

### **Grants**

Grants are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

### **Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the year ended February 28, 2005, The Village incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report.

Village of Shepherd  
Notes To The Financial Statements

**NOTE 3 - CASH AND INVESTMENTS**

At February 28<sup>th</sup> the carrying amount of the Village's cash and cash investments are as follows:

<b>Cash And Cash Equivalents</b>	<b>Amount</b>
Petty Cash	\$65
Checking, Savings, & Money Market Accounts	740,371
Certificates of Deposit	287,727
<b>Total</b>	<b>\$1,028,163</b>

At February 28, 2005 the bank balance was \$1,319,089. The difference between the bank balance and the carrying amount shown above is due to outstanding deposits and checks. Of the bank balance, \$341,747 was covered by federal depository insurance and \$977,342 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable as of February 28th, consists of the following:

<b>Fund / Receivable</b>	<b>Amount</b>
General Fund:	
Trash	\$12,508
Debt Service Fund – Storm Water Separation Project:	
Special Assessments	735,880
Police Fund:	
Fines and Forfeits	265
Water Fund:	
Water Fees	18,176
Sewer Fund:	
Sewer Fees	10,331
<b>Total</b>	<b>\$777,160</b>

Village of Shepherd  
Notes To The Financial Statements

**NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of February 28th, consists of the following:

<b>Fund / Due From</b>	<b>Amount</b>
General Fund:	
County of Isabella – Property Taxes	\$13,295
Major Street:	
State of Michigan	14,050
Local Street:	
State of Michigan	5,005
Debt Service Fund – Storm Water Separation Project:	
County of Isabella – Property Taxes	13,615
<b>Total</b>	<b>\$45,965</b>

**NOTE 6 - PREPAIDS**

Prepaid expenses represent payments for fire services to Tri-Township Fire Department for services that will benefit future periods.

**NOTE 7 – CAPITAL ASSETS**

Capital assets activity for the year ended February 28, 2005 for the *governmental activities* was as follows:

<b>Governmental Activities</b>	<b>3/1/04</b>	<b>Additions</b>	<b>Disposals</b>	<b>2/28/05</b>
<b>CAPITAL ASSETS:</b>				
Land	\$10,000	-	-	\$10,000
Buildings & Improvements	253,800			253,800
Machinery & Equipment	328,558	-	-	328,558
Vehicles	230,772	-	-	230,772
Sub-total	823,130	-	-	823,130
<b>ACCUMULATED DEPR:</b>				
Buildings & Improvements	(78,984)	(\$4,836)	-	(83,820)
Machinery & Equipment	(179,358)	(17,604)	-	(196,962)
Vehicles	(160,111)	(21,947)	-	(182,058)
Sub-total	(418,453)	(44,387)	-	(462,840)
<b>NET CAPITAL ASSETS</b>	<b>\$404,677</b>	<b>(\$44,387)</b>	<b>-</b>	<b>\$360,290</b>

Village of Shepherd  
Notes To The Financial Statements

Capital assets activity for the year ended February 28, 2005 for the *business-type* activities was as follows:

<b>Business-Type</b>	<b>3/1/04</b>	<b>Additions</b>	<b>Disposals</b>	<b>2/28/05</b>
<b>CAPITAL ASSETS:</b>				
Land	\$31,186	-	-	\$31,186
Buildings & Improvements	4,502,350	-	-	4,502,350
Machinery & Equipment	103,397	-	-	103,397
Sub-total	4,636,933		-	4,636,933
<b>ACCUMULATED DEPR:</b>				
Buildings & Improvements	(1,362,665)	(\$109,157)	-	(1,471,822)
Machinery & Equipment	(56,414)	(2,206)	-	(58,620)
Sub-total	(1,419,079)	(111,363)	-	(1,530,442)
<b>NET CAPITAL ASSETS</b>	<b>\$3,217,854</b>	<b>(111,363)</b>	<b>-</b>	<b>\$3,106,491</b>

Depreciation expense was charged to programs as follows:

<b>GOVERNMENT ACTIVITIES:</b>	
General Government	\$4,836
Public Safety	2,885
Public Works	36,666
Total Government Activities	44,387
<b>BUSINESS-TYPE ACTIVITIES:</b>	
Water	55,770
Sewer	55,593
Total Business-Type Activities	111,363
<b>Total</b>	<b>\$155,750</b>

Village of Shepherd  
Notes To The Financial Statements

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**NOTE 8 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental fund also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue	Amount
Special Assessments Not Yet Due	\$654,008

**NOTE 9 – STORM WATER SEPARATION PROJECT**

During the 1994-95 fiscal year the Village of Shepherd contracted with the Isabella County Department of Public Works (DPW) for the construction associated with the improvements of the Sewer Disposal and Water Systems of the Village.

Beginning with the 1994 tax levy, a special assessment was established against Village property owners in order to provide a portion of the funds needed to service the Isabella County DPW loan. The total special assessment principal balance was \$2,493,341, bears an interest rate of 6.87%, and is being assessed over a twenty year period. Property owners were given the option to pay their portion of the assessment in full at any time to avoid additional interest on the assessment. These advance payments have been recorded as deferred revenue for the portion attributable to years after fiscal year ending February 29, 2000. This amount which has been recognized as deferred revenue is then being recognized as revenue proportionately over the remaining life of the deferral.

The remaining portion of the Isabella County DPW loan is serviced by capital surcharges which were added to customers quarterly water bills. The water capital surcharge is 80 cents per 1,000 gallons of water used. The sewer capital surcharge is also 80 cents per 1,000 gallons of water used. Special assessment collection activities and the capital surcharges are accounted for in the Storm Water Separation Project Debt Service Fund.

Village of Shepherd  
Notes To The Financial Statements

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**NOTE 10 - LONG-TERM DEBT**

**Capital Lease**

The Village entered into a capital lease arrangement for financing the Waste Water Sanitary Improvement Facility. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, a capital asset has been recorded at the present value of the minimum lease payments as of the date of the lease. The lease agreement was entered into on January 1, 1999 and the present value of the minimum lease payments at that time was \$2,460,000.

Additional information regarding this lease can be found in the back of this report.

**Compensated Absences**

Vacation

Employees are allowed to accumulate and carry forward up to 48 hours of vacation time. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment. These financial statements do not reflect a liability for unused vacation hours since the amount is not material.

Sick

Sick leave is earned at the rate of 96 hours per year for full-time employees, not to exceed 90 days and a pro-rata number of hours for part-time employees. Upon termination of employment, all sick leave benefits are forfeited. These financial statements do not reflect a liability for unused sick leave hours since they do not vest or accumulate from year to year.

The changes in long-term debt during the fiscal year ended February 28, 2005 are as follows:

Description	3/1/04	Additions	Reductions	2/28/05
Capital Leases	\$1,900,000	-	\$180,000	\$1,720,000



Village of Shepherd  
Notes To The Financial Statements

The annual requirements to pay principal and interest on the obligations outstanding at February 28, 2005 are as follows:

<b>For The Fiscal year Ending February 28,</b>	<b>Amount</b>
2006	\$251,106
2007	253,235
2008	245,355
2009	237,328
2010	229,205
2011 and thereafter	\$852,190

**NOTE 11 – JOINT VENTURE**

The Village is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Village and Chippewa, Coe, and Lincoln Townships. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget. The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2004, the most recent financial statements available:

Total Assets	\$1,945,526
Total Liabilities	245
Total Equity	1,945,281
Total Revenues	195,919
Total Expenditures	\$203,413

Total assets (and fund equity) includes \$1,800,881 in fixed assets at cost.

For the Fire Department's year ended November 30, 2004 the share of the annual budget for each participating unit was:

<b>Governmental Unit</b>	<b>Share of Budget</b>
Village of Shepherd	15%
Chippewa Township	44%
Lincoln Township	22%
Coe Township	19%
Total	100%

Village of Shepherd  
Notes To The Financial Statements

**NOTE 12 – PENSION PLAN**

The following table presents information required by GASB Statements Number 25 and 27.

<b>GASB 25 INFORMATION</b>	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$0
Terminated Employees Not Yet Receiving Benefits	121,876
Non-vested Terminated Employees (pending refunds of accumulated member contributions)	2,481
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income Employer Financed	16,507 55,210
Total Actuarial Accrued Liability	196,074
Net Assets Available For Benefits At Actuarial Value (market value \$339,383)	347,686
Unfunded (Overfunded) Actuarial Accrued Liability	(\$151,612)
<b>GASB 27 INFORMATION</b>	
Fiscal Year Beginning	March 1, 2006
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (33 years)	.053632
Amortization Factor Used – Underfunded Liabilities (10 years)	.119963

The Village of Shepherd participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system. All full-time employees (excluding officials) of the Village are eligible to participate in the system.

General Village and Police Department employees who retire at or after the age of 60 with 10 years of credited service are entitled to retirement benefits payable monthly for life, equal to 1.7% of their final average compensation. Employees who retire at age 55 with 15 or more years of credited service are entitled to reduced benefits. There is no mandatory retirement. Deferred retirement is provided by MERS. MERS also provides for death and disability benefits. Benefits are established by Michigan Public Act 427 of 1984.

The Village adopted Benefit E for 1989 which provides a one-time benefit increase to present retirees and beneficiaries equal to two percent of the present benefits times the number of years since the later of retirement or the last Benefit E increase (Benefit E may be readapted from time to time). Beginning March 1, 1990 the Village adopted Benefit E-1. This plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired before the effective date of Benefit E-1. Cumulative increases are limited to increases in the consumer price index.

Village of Shepherd  
Notes To The Financial Statements

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The Village has the responsibility for making actuarially determined contributions to MERS. The required contributions are zero. The employees made contributions of 2% of annual compensation during the fiscal year ended February 28, 2005. For the year ended February 28, 2005 the Village's annual pension cost was zero.

**NOTE 13 – FUND BALANCE RESERVES**

In the fund level financial statements a portion of the fund balance at February 28<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

**NOTE 14 – RISK MANAGEMENT**

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Village has purchased commercial insurance from independent insurance providers for property loss, professional liability, and employee injuries (worker's compensation). Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Village also participates in the Michigan Municipal Risk Management Authority (MMRMA) risk pool program. The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Village is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention.

If a covered loss exceeds the Village's limits, all further payments for such loss are the sole obligation of the Village. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Village is the sole obligation of the Village.

The Village's coverage limits include \$11,000,000 for liability and \$2,000,000 for vehicle physical damage. The contribution made by the Village to the MMRMA was \$29,565 for the period March 1, 2004 to March 1, 2005.

Village of Shepherd  
Notes To The Financial Statements

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**NOTE 15 – SEGMENT INFORMATION**

The Village maintains two enterprise funds which provides water and sewer services. Segment information for the year ended February 28, 2005 is as follows:

	<b>Sewer Fund</b>	<b>Water Fund</b>
Operating Revenues	\$43,574	\$86,762
Depreciation Expense	55,593	55,770
Operating Income Or (Loss)	(52,138)	(53,953)
Operating Transfers In (Out)	160,000	-
Net Income (Loss)	109,598	(44,947)
Plant, Property And Equipment Additions	-	-
Net Working Capital	(45,632)	142,885
Total Equity	(\$69,189)	\$1,732,933

**REQUIRED SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**

Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For the year ended February 28, 2005

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$272,237	\$272,237	\$299,493	\$27,256
Special assessments	-	-	-	-
State shared revenues	145,500	160,000	156,937	(3,063)
Charges for services	48,000	49,300	49,657	357
Interest and rents	49,500	3,500	2,994	(506)
Miscellaneous	8,100	7,500	26,778	19,278
<b>Total revenues</b>	<b>523,337</b>	<b>492,537</b>	<b>535,859</b>	<b>43,322</b>
<b>Expenditures</b>				
Legislative	31,200	30,307	25,262	5,045
General government	77,445	84,610	77,862	6,748
Public safety	38,700	38,700	44,149	(5,449)
Public works	118,060	141,370	140,595	775
Recreation and culture	4,000	4,700	4,019	681
Capital outlay	57,800	55,649	56,002	(353)
Debt service	-	-	-	-
Other expenditures	105,422	96,751	82,186	14,565
<b>Total expenditures</b>	<b>432,627</b>	<b>452,087</b>	<b>430,075</b>	<b>22,012</b>
Excess of revenues over (under) expenditures	90,710	40,450	105,784	65,334
Other financing sources (uses)				
Operating transfers in	48,800	-	49,899	49,899
Operating transfers (out)	(151,941)	(117,941)	(105,873)	12,068
<b>Total other financing sources (uses)</b>	<b>(103,141)</b>	<b>(117,941)</b>	<b>(55,974)</b>	<b>61,967</b>
Excess of revenues and other sources over (under) expenditures and other uses	(12,431)	(77,491)	49,810	127,301
Fund balance, beginning of year	201,835	201,835	201,835	-
<b>Fund balance, end of year</b>	<b>\$189,404</b>	<b>\$124,344</b>	<b>\$251,645</b>	<b>\$127,301</b>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Major Street Fund  
For the year ended February 28, 2005

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$75,000	\$76,200	\$81,724	\$5,524
Charges for services	-	-	-	-
Interest and rents	500	500	1,441	941
Miscellaneous	-	-	-	-
Total revenues	75,500	76,700	83,165	6,465
<b>Expenditures</b>				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	59,663	84,830	84,967	(137)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
Total expenditures	59,663	84,830	84,967	(137)
Excess of revenues over (under) expenditures	15,837	(8,130)	(1,802)	6,328
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(18,750)	(18,750)	(20,604)	(1,854)
Total other financing sources (uses)	(18,750)	(18,750)	(20,604)	(1,854)
Excess of revenues and other sources over (under) expenditures and other uses	(2,913)	(26,880)	(22,406)	4,474
Fund balance, beginning of year	163,756	163,756	163,756	-
Fund balance, end of year	\$160,843	\$136,876	\$141,350	\$4,474

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Local Street Fund  
For the year ended February 28, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$25,000	\$27,000	\$29,021	\$2,021
Charges for services	-	-	-	-
Interest and rents	500	500	362	(138)
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>25,500</b>	<b>27,500</b>	<b>29,383</b>	<b>1,883</b>
<b>Expenditures</b>				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	73,091	78,700	63,995	14,705
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
<b>Total expenditures</b>	<b>73,091</b>	<b>78,700</b>	<b>63,995</b>	<b>14,705</b>
Excess of revenues over (under) expenditures	(47,591)	(51,200)	(34,612)	16,588
Other financing sources (uses)				
Operating transfers in	39,691	39,691	42,546	2,855
Operating transfers (out)	-	-	-	-
<b>Other financing sources (uses)</b>	<b>39,691</b>	<b>39,691</b>	<b>42,546</b>	<b>2,855</b>
Excess of revenues and other sources over (under) expenditures and other uses	(7,900)	(11,509)	7,934	19,443
Fund balance, beginning of year	53,557	53,557	53,557	-
<b>Fund balance, end of year</b>	<b>\$45,657</b>	<b>\$42,048</b>	<b>\$61,491</b>	<b>\$19,443</b>

The notes to the financial statements are an integral part of this statement.



Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Police Fund  
For the year ended February 28, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	-	-	-	-
Special assessments	-	-	-	-
State shared revenues	\$600	\$600	-	(\$600)
Charges for services	-	-	-	-
Interest and rents	300	300	\$665	365
Miscellaneous	8,075	8,075	42,550	34,475
<b>Total revenues</b>	<b>8,975</b>	<b>8,975</b>	<b>43,215</b>	<b>34,240</b>
<b>Expenditures</b>				
Legislative	-	-	-	-
General government	-	-	-	-
Public safety	109,769	110,444	110,308	136
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Other expenditures	-	-	-	-
<b>Total expenditures</b>	<b>109,769</b>	<b>110,444</b>	<b>110,308</b>	<b>136</b>
Excess of revenues over (under) expenditures	(100,794)	(101,469)	(67,093)	34,376
Other financing sources (uses)				
Operating transfers in	85,000	85,000	93,000	8,000
Operating transfers (out)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>85,000</b>	<b>85,000</b>	<b>93,000</b>	<b>8,000</b>
Excess of revenues and other sources over (under) expenditures and other uses	(15,794)	(16,469)	25,907	42,376
Fund balance, beginning of year	38,016	38,016	38,016	-
<b>Fund balance, end of year</b>	<b>\$22,222</b>	<b>\$21,547</b>	<b>\$63,923</b>	<b>\$42,376</b>

The notes to the financial statements are an integral part of this statement.

**OTHER SUPPLEMENTAL INFORMATION**

INDIVIDUAL FUND STATEMENTS

SCHEDULE OF LONG-TERM DEBT

Village Of Shepherd  
Balance Sheet  
General Fund  
February 28, 2005 and February 29, 2004

Assets	<u>2005</u>	<u>2004</u>
Cash and investments	\$230,605	\$171,653
Accounts receivable	12,508	15,519
Due from other governmental units	13,295	13,786
Prepaid items	<u>-</u>	<u>15,143</u>
Total Assets	<u>\$256,408</u>	<u>\$216,101</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$3,120	\$13,029
Accrued wages and other payroll liabilities	<u>1,643</u>	<u>1,237</u>
Total liabilities	<u>4,763</u>	<u>14,266</u>
Fund balance		
Reserved for prepaid items	-	15,143
Unreserved, undesignated	<u>251,645</u>	<u>186,692</u>
Total fund balance	<u>251,645</u>	<u>201,835</u>
Total liabilities and fund balance	<u>\$256,408</u>	<u>\$216,101</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
General Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Revenues		
Taxes and penalties	\$299,493	\$255,058
State grants	156,937	168,505
Charges for services	49,657	48,307
Interest and rents	2,994	57,442
Other revenue	26,778	10,761
Total revenues	<u>535,859</u>	<u>540,073</u>
Expenditures		
Legislative	25,262	26,345
General government	77,862	95,391
Public safety	44,149	37,453
Public works	140,595	187,390
Recreational and cultural	4,019	3,636
Other expenditures	82,186	97,730
Capital outlay	56,002	31,377
Total expenditures	<u>430,075</u>	<u>479,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>105,784</u>	<u>60,751</u>
Other financing sources (uses)		
Operating transfers in	49,899	51,344
Operating transfers out	<u>(105,873)</u>	<u>(114,795)</u>
Total other financing sources (uses)	<u>(55,974)</u>	<u>(63,451)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	49,810	(2,700)
Fund balance, beginning of year	201,835	182,990
Prior period adjustment	<u>-</u>	<u>21,545</u>
Fund balance, end of year	<u><u>\$251,645</u></u>	<u><u>\$201,835</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Expenditures  
General Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Legislative		
Village council		
Salaries and wages	\$16,248	\$15,697
Training and education	387	655
Printing and publishing	5,887	6,066
Dues and subscriptions	1,617	1,357
Miscellaneous	1,123	2,570
	<u>25,262</u>	<u>26,345</u>
General government		
Elections board		
Salaries and wages	-	-
Printing and supplies	1,463	5,276
	<u>1,463</u>	<u>5,276</u>
Assessor and building inspector		
Salaries and wages	600	600
	<u>600</u>	<u>600</u>
Legal and professional		
Contracted services	10,500	10,576
	<u>10,500</u>	<u>10,576</u>
Clerk and treasurer		
Salaries and wages	30,926	37,886
Office supplies	2,907	3,233
Contracted services	1,619	1,688
Training and education	93	723
Communications	1,932	2,137
Miscellaneous	3,540	2,587
	<u>41,017</u>	<u>48,254</u>
Hall and grounds		
Salaries and wages	-	-
Operating supplies	8,215	9,208
Repairs and maintenance	1,117	5,809
Communications	3,976	4,251
Utilities	8,834	8,776
Contracted services	218	416
Miscellaneous	1,922	2,225
	<u>24,282</u>	<u>30,685</u>
Total general government	77,862	95,391

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Expenditures  
General Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Public safety		
Crossing guard	\$4,735	\$5,206
Contracted services	39,414	32,247
	<u>44,149</u>	<u>37,453</u>
Public works		
Salaries and wages	27,360	21,080
Supplies	5,476	5,333
Contracted services	2,100	51,638
Repairs	6,616	14,222
Trash	47,103	44,888
Equipment rental	33,114	31,063
Miscellaneous	-	-
Utilities	18,826	19,166
	<u>140,595</u>	<u>187,390</u>
Recreational and cultural		
City park		
Salaries and wages	2,764	2,381
Supplies	280	94
Utilities	675	756
Equipment rental	300	405
Miscellaneous	-	-
	<u>4,019</u>	<u>3,636</u>
Other expenditures		
Employee insurances and fringes	52,267	51,526
Insurance	22,147	37,809
Payroll taxes	7,097	6,636
Other	675	1,759
	<u>82,186</u>	<u>97,730</u>
Capital outlay	<u>56,002</u>	<u>31,377</u>
Total expenditures	<u>\$430,075</u>	<u>\$479,322</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Combining Balance Sheet  
Special Revenue Funds  
February 28, 2005

	Major Street	Local Street	Police	Total
<b>Assets</b>				
Cash and investments	\$130,022	\$58,571	\$66,784	\$255,377
Due from other governmental units	14,050	5,005	265	19,320
<b>Total Assets</b>	<b>\$144,072</b>	<b>\$63,576</b>	<b>\$67,049</b>	<b>\$274,697</b>
<b>Liabilities and fund balance</b>				
<b>Liabilities</b>				
Accounts payable	\$1,749	\$1,355	\$1,392	\$4,496
Accrued wages and other payroll liabilities	973	730	1,734	3,437
<b>Total liabilities</b>	<b>2,722</b>	<b>2,085</b>	<b>3,126</b>	<b>7,933</b>
<b>Fund balance</b>				
Unreserved, undesignated	141,350	61,491	63,923	266,764
<b>Total fund balance</b>	<b>141,350</b>	<b>61,491</b>	<b>63,923</b>	<b>266,764</b>
<b>Total liabilities and fund balance</b>	<b>\$144,072</b>	<b>\$63,576</b>	<b>\$67,049</b>	<b>\$274,697</b>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Special Revenue Funds  
For The Year Ended February 28, 2005

	Major Street	Local Street	Police	Total
Revenues				
State grants	\$81,724	\$29,021	\$37,000	\$147,745
Fines and forfeits	-	-	5,480	5,480
Interest	1,441	362	665	2,468
Other revenue	-	-	70	70
Total revenues	83,165	29,383	43,215	155,763
Expenditures				
Salaries and wages	19,402	16,973	69,814	106,189
Fringe benefits	1,371	1,200	15,965	18,536
Supplies	4,154	3,905	2,939	10,998
Contracted services	44,110	32,733	1,986	78,829
Communications	-	-	2,749	2,749
Utilities	190	-	-	190
Rentals	10,045	6,951	-	16,996
Repairs and maintenance	3,943	2,184	-	6,127
Miscellaneous	1,752	49	16,855	18,656
Total expenditures	84,967	63,995	110,308	259,270
Excess of revenues over (under) expenditures	(1,802)	(34,612)	(67,093)	(103,507)
Other financing sources (uses)				
Transfers in	-	42,546	93,000	135,546
Transfers (out)	(20,604)	-	-	(20,604)
Total other financing sources (uses)	(20,604)	42,546	93,000	114,942
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(22,406)	7,934	25,907	11,435
Fund balance, beginning of year	163,756	53,557	38,016	255,329
Fund balance, end of year	\$141,350	\$61,491	\$63,923	\$266,764

The notes to the financial statements are an integral part of this statement.



Village Of Shepherd  
Balance Sheet  
Major Street Fund  
February 28, 2005 and February 29, 2004

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Assets	2005	2004
Cash and investments	\$130,022	\$153,025
Due from other governmental units	14,050	14,742
Total assets	<u>\$144,072</u>	<u>\$167,767</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,749	\$3,617
Accrued wages and other payroll liabilities	973	394
Total liabilities	<u>2,722</u>	<u>4,011</u>
Fund balance		
Unreserved, undesignated	<u>141,350</u>	<u>163,756</u>
Total fund balance	<u>141,350</u>	<u>163,756</u>
Total liabilities and fund balance	<u>\$144,072</u>	<u>\$167,767</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Major Street Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Revenues		
State grants	\$81,724	\$79,317
Interest	1,441	3,513
Other revenue	-	-
Total revenues	<u>83,165</u>	<u>82,830</u>
Expenditures		
Salaries and wages	19,402	22,338
Fringe benefits	1,371	1,663
Supplies	4,154	6,438
Contracted services	44,110	398,500
Utilities	190	134
Rentals	10,045	16,030
Repairs and maintenance	3,943	4,302
Miscellaneous	<u>1,752</u>	<u>1,237</u>
Total expenditures	<u>84,967</u>	<u>450,642</u>
Excess of revenues over (under) expenditures	(1,802)	(367,812)
Other financing sources (uses)		
Transfers in	-	12,972
Transfers (out)	<u>(20,604)</u>	<u>(58,479)</u>
Total other financing sources (uses)	<u>(20,604)</u>	<u>(45,507)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(22,406)	(413,319)
Fund balance, beginning of year	163,756	563,540
Prior period adjustment	<u>-</u>	<u>13,535</u>
Fund balance, end of year	<u><u>\$141,350</u></u>	<u><u>\$163,756</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Balance Sheet  
Local Street Fund  
February 28, 2005 and February 29, 2004

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Assets	<u>2005</u>	<u>2004</u>
Cash and investments	\$58,571	\$50,106
Due from other governmental units	<u>5,005</u>	<u>5,207</u>
Total assets	<u><u>\$63,576</u></u>	<u><u>\$55,313</u></u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,355	\$1,417
Accrued wages and other payroll liabilities	<u>730</u>	<u>339</u>
Total liabilities	<u>2,085</u>	<u>1,756</u>
Fund balance		
Unreserved, undesignated	<u>61,491</u>	<u>53,557</u>
Total fund balance	<u>61,491</u>	<u>53,557</u>
Total liabilities and fund balance	<u><u>\$63,576</u></u>	<u><u>\$55,313</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Local Street Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Revenues		
State grants	\$29,021	\$27,946
Interest	362	606
Other revenue	-	-
Total revenues	<u>29,383</u>	<u>28,552</u>
Expenditures		
Salaries and wages	16,973	19,118
Fringe benefits	1,200	1,419
Supplies	3,905	3,602
Contracted services	32,733	1,629
Rentals	6,951	11,852
Repairs and maintenance	2,184	9,202
Miscellaneous	49	800
Total expenditures	<u>63,995</u>	<u>47,622</u>
Excess of revenues over (under) expenditures	(34,612)	(19,070)
Other financing sources (uses)		
Transfers in	42,546	9,542
Transfers (out)	-	-
Total other financing sources (uses)	<u>42,546</u>	<u>9,542</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	7,934	(9,528)
Fund balance, beginning of year	53,557	58,067
Prior period adjustment	-	5,018
Fund balance, end of year	<u>\$61,491</u>	<u>\$53,557</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Balance Sheet  
Police Fund  
February 28, 2005 and February 29, 2004

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Assets	2005	2004
Cash and investments	\$66,784	\$40,238
Due from other governmental units	265	597
Total assets	<u>\$67,049</u>	<u>\$40,835</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,392	\$1,530
Accrued wages and other payroll liabilities	1,734	1,289
Total liabilities	<u>3,126</u>	<u>2,819</u>
Fund balance		
Unreserved, undesignated	<u>63,923</u>	<u>38,016</u>
Total fund balance	<u>63,923</u>	<u>38,016</u>
Total liabilities and fund balance	<u>\$67,049</u>	<u>\$40,835</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Police Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	2005	2004
Revenues		
State grants	\$37,000	\$633
Fines and forfeits	5,480	5,609
Interest	665	470
Other revenue	70	1,161
Total revenues	<u>43,215</u>	<u>7,873</u>
Expenditures		
Salaries and wages	69,814	60,740
Fringe benefits	15,965	15,823
Supplies	2,939	1,488
Gasoline	3,599	3,138
Uniforms	434	893
Professional services	1,986	1,500
Auto	1,348	1,077
Telephone	1,701	1,667
Radio	1,048	1,182
Education and training	100	407
Other	1,341	2,214
Equipment	3,882	942
Saginaw Chippewa grant expenditures	6,151	13,320
Miscellaneous	-	1,216
Total expenditures	<u>110,308</u>	<u>105,607</u>
Excess of revenues over (under) expenditures	(67,093)	(97,734)
Other financing sources (uses)		
Transfers in	93,000	85,000
Transfers (out)	-	-
Total other financing sources (uses)	<u>93,000</u>	<u>85,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	25,907	(12,734)
Fund balance, beginning of year	<u>38,016</u>	<u>50,750</u>
Fund balance, end of year	<u><u>\$63,923</u></u>	<u><u>\$38,016</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Combining Balance Sheet  
Debt Service Funds  
February 28, 2005

	Street Improvement	Storm Water Separation Project	Total
<b>Assets</b>			
Cash and investments	\$13	\$182,458	\$182,471
Special assessments receivable	-	81,872	81,872
Due from other governmental units	-	13,615	13,615
	<u>13</u>	<u>277,945</u>	<u>277,958</u>
<b>Total current assets</b>			
Long-term assets			
Special assessments receivable	-	654,008	654,008
	<u>-</u>	<u>654,008</u>	<u>654,008</u>
<b>Total assets</b>	<u><u>\$13</u></u>	<u><u>\$931,953</u></u>	<u><u>\$931,966</u></u>
<b>Liabilities and fund balance</b>			
Long-term liabilities			
Deferred special assessments revenue	-	\$654,008	\$654,008
	<u>-</u>	<u>654,008</u>	<u>654,008</u>
<b>Total liabilities</b>			
	<u>-</u>	<u>654,008</u>	<u>654,008</u>
<b>Fund balance</b>			
Unreserved	\$13	-	13
Reserved for debt retirement	-	277,945	277,945
	<u>-</u>	<u>277,945</u>	<u>277,945</u>
<b>Total fund balance</b>	<u>13</u>	<u>277,945</u>	<u>277,958</u>
<b>Total liabilities and fund balance</b>	<u><u>\$13</u></u>	<u><u>\$931,953</u></u>	<u><u>\$931,966</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Debt Service Funds  
For The Year Ended February 28, 2005

	Street Improvement	Storm Water Separation Project	Total
Revenues			
Special assessment collections	-	\$141,240	\$141,240
User fee revenues	-	67,330	67,330
Interest	-	3,368	3,368
Total revenues	-	211,938	211,938
Expenditures			
Principal payments		-	-
Interest		82,445	82,445
Miscellaneous		300	300
Total expenditures	-	82,745	82,745
Excess of revenues over (under) expenditures	-	129,193	129,193
Other financing sources (uses)			
Transfers in (out)	-	(160,000)	(160,000)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	(30,807)	(30,807)
Fund balance, beginning of year	\$13	308,752	308,765
Fund balance, end of year	\$13	\$277,945	\$277,958

The notes to the financial statements are an integral part of this statement.



Village Of Shepherd  
Balance Sheet  
Storm Water Separation Project Debt Service Fund  
February 28, 2005 and February 29, 2004

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Assets	<u>2005</u>	<u>2004</u>
Current assets		
Cash and investments	\$182,458	\$216,708
Special assessments receivable - current portion	81,872	81,872
Due from other governmental units	<u>13,615</u>	<u>15,172</u>
Total current assets	277,945	313,752
Long-term assets		
Special assessments receivable	<u>654,008</u>	<u>654,008</u>
Total assets	<u><u>\$931,953</u></u>	<u><u>\$967,760</u></u>
Liabilities and fund balance		
Current liabilities		
Accounts payable	-	\$5,000
Long-term liabilities		
Deferred special assessments revenue	<u>\$654,008</u>	<u>654,008</u>
Total liabilities	<u>654,008</u>	<u>659,008</u>
Fund balance		
Reserved for debt retirement	<u>277,945</u>	<u>308,752</u>
Total fund balance	<u>277,945</u>	<u>308,752</u>
Total liabilities and fund balance	<u><u>\$931,953</u></u>	<u><u>\$967,760</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Storm Water Separation Project Debt Service Fund  
For The Years Ended February 28, 2005 and February 29, 2004

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	<u>2005</u>	<u>2004</u>
Revenues		
Special assessment collections	\$141,240	\$155,719
User fee revenues	67,330	77,438
Interest	<u>3,368</u>	<u>3,418</u>
Total revenues	<u>211,938</u>	<u>236,575</u>
Expenditures		
Principal payments	180,000	180,000
Interest	82,445	90,005
Miscellaneous	<u>300</u>	<u>300</u>
Total expenditures	<u>262,745</u>	<u>270,305</u>
Excess of revenues over (under) expenditures	(50,807)	(33,730)
Other financing sources (uses)		
Transfers in	<u>20,000</u>	<u>20,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(30,807)	(13,730)
Fund balance, beginning of year	308,752	322,482
Prior period adjustment	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$277,945</u>	<u>\$308,752</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Balance Sheet  
Capital Projects Fund  
February 28, 2005 and February 29, 2004

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Assets	<u>2005</u>	<u>2004</u>
Cash and investments	<u>\$117,195</u>	<u>\$138,662</u>
Total assets	<u><u>\$117,195</u></u>	<u><u>\$138,662</u></u>
Liabilities and fund balance		
Fund balance		
Unreserved, undesignated	<u>\$117,195</u>	<u>\$138,662</u>
Total fund balance	<u>117,195</u>	<u>138,662</u>
Total liabilities and fund balance	<u><u>\$117,195</u></u>	<u><u>\$138,662</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Capital Projects Fund  
For The Years Ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Interest	<u>\$1,097</u>	<u>\$1,322</u>
Total revenues	<u>1,097</u>	<u>1,322</u>
Expenditures		
Miscellaneous	<u>600</u>	<u>-</u>
Total expenses	<u>600</u>	<u>-</u>
Excess of revenues over (under) expenditures	497	1,322
Other financing sources (uses)		
Transfers in	35,935	58,541
Transfers (out)	<u>(57,899)</u>	<u>(68,489)</u>
Total other financing sources (uses)	<u>(21,964)</u>	<u>(9,948)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(21,467)	(8,626)
Fund balance, beginning of year	<u>138,662</u>	<u>147,288</u>
Fund balance, end of year	<u><u>\$117,195</u></u>	<u><u>\$138,662</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Net Assets  
Sewer Fund  
February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash and cash equivalents	\$124,806	\$140,103
Accounts receivable	<u>10,331</u>	<u>9,508</u>
Total current assets	<u>135,137</u>	<u>149,611</u>
Property, plant and equipment, net	<u>1,516,443</u>	<u>1,572,036</u>
Total assets	<u><u>\$1,651,580</u></u>	<u><u>\$1,721,647</u></u>
<b>Liabilities</b>		
Accounts payable	\$429	\$198
Accrued wages and other payroll liabilities	340	236
Current portion of long-term debt	<u>180,000</u>	<u>180,000</u>
Total current liabilities	<u>180,769</u>	<u>180,434</u>
Capital lease	<u>1,540,000</u>	<u>1,720,000</u>
Total liabilities	<u>1,720,769</u>	<u>1,900,434</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	(203,557)	(327,964)
Unrestricted	<u>134,368</u>	<u>149,177</u>
Total net assets	<u>(69,189)</u>	<u>(178,787)</u>
<b>Total liabilities and net assets</b>	<u><u>\$1,651,580</u></u>	<u><u>\$1,721,647</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenses and Changes in Net Assets  
Sewer Fund  
For the years ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Service charges	\$41,514	\$41,703
User fees	<u>2,060</u>	<u>2,200</u>
Total operating revenues	<u>43,574</u>	<u>43,903</u>
Operating expenses		
Salaries and wages	10,398	8,768
Fringe benefits	788	652
Supplies	2,305	4,152
Contracted services	17,909	60,179
Utilities	2,238	1,399
Depreciation	55,593	58,995
Miscellaneous	<u>6,481</u>	<u>5,000</u>
Total operating expenses	<u>95,712</u>	<u>139,145</u>
Operating income (loss)	(52,138)	(95,242)
Non-operating revenues (expenses)		
Interest income	1,699	3,217
Other	<u>37</u>	<u>2,072</u>
Total non-operating revenues (expenses)	<u>1,736</u>	<u>5,289</u>
Other financing sources (uses)		
Operating transfers in (out)	<u>160,000</u>	<u>(45,000)</u>
Net income	109,598	(134,953)
Net assets - beginning of year	<u>(178,787)</u>	<u>(43,834)</u>
Net assets - end of year	<u><u>(\$69,189)</u></u>	<u><u>(\$178,787)</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Cash Flows  
Sewer Fund  
For the years ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers	\$42,751	\$44,118
Payments to suppliers / outsiders	(28,598)	(70,321)
Payments to employees	<u>(11,186)</u>	<u>(9,420)</u>
Net cash provided by operating activities	<u>2,967</u>	<u>(35,623)</u>
Cash flows from non-capital financing activities:		
Operating transfers in	180,000	180,000
Operating transfers (out)	<u>(20,000)</u>	<u>(45,000)</u>
Net cash provided by non-capital financing activities	<u>160,000</u>	<u>135,000</u>
Cash flows from capital and related financing activities:		
Principal payments	<u>(180,000)</u>	<u>(180,000)</u>
Net cash provided by capital and related financing activities	<u>(180,000)</u>	<u>(180,000)</u>
Cash flows from investing activities:		
Interest income	1,699	3,217
Other	<u>37</u>	<u>2,072</u>
Net cash provided by investing activities	<u>1,736</u>	<u>5,289</u>
Net increase (decrease) in cash and cash equivalents	(15,297)	(75,334)
Cash and cash equivalents - beginning of year	<u>140,103</u>	<u>215,437</u>
Cash and cash equivalents - end of year	<u><u>\$124,806</u></u>	<u><u>\$140,103</u></u>
Cash flows from operating activities:		
Income from operations	(\$52,138)	(\$95,242)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,593	58,995
(Increase) decrease in:		
Accounts receivable	(823)	215
Increase (decrease) in:		
Accounts payable	231	198
Accrued expenses	<u>104</u>	<u>211</u>
Net cash provided by operating activities	<u><u>\$2,967</u></u>	<u><u>(\$35,623)</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Net Assets  
Water Fund  
February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash and cash equivalents	\$117,709	\$105,552
Accounts receivable	18,176	17,088
Inventory	<u>10,800</u>	<u>10,800</u>
Total current assets	<u>146,685</u>	<u>133,440</u>
Property, plant and equipment, net	<u>1,590,048</u>	<u>1,645,818</u>
Total assets	<u><u>\$1,736,733</u></u>	<u><u>\$1,779,258</u></u>
<b>Liabilities</b>		
Accounts payable	\$3,766	\$1,021
Accrued wages and other payroll liabilities	<u>34</u>	<u>357</u>
Total liabilities	<u>3,800</u>	<u>1,378</u>
<b>Net assets</b>		
Unrestricted	<u>1,732,933</u>	<u>1,777,880</u>
Total liabilities and net assets	<u><u>\$1,736,733</u></u>	<u><u>\$1,779,258</u></u>

The notes to the financial statements are an integral part of this statement.



Village of Shepherd  
Statement of Revenues, Expenses and Changes in Net Assets  
Water Fund  
For the years ended February 28, 2005 and February 29, 2004

	2005	2004
Operating revenues		
Service charges	\$70,678	\$68,371
User fees	4,084	7,549
Hydrant rental	12,000	1,500
Miscellaneous	-	9,078
Total operating revenues	<u>86,762</u>	<u>86,498</u>
Operating expenses		
Salaries and wages	20,999	23,168
Fringe benefits	1,631	1,773
Supplies	17,879	24,413
Contracted services	15,783	1,422
Rentals	5,738	281
Repairs	6,480	11,724
Printing and publishing	-	-
Utilities	8,184	7,958
Depreciation	55,770	56,098
Miscellaneous	8,251	1,418
Total operating expenses	<u>140,715</u>	<u>128,255</u>
Operating income (loss)	(53,953)	(41,757)
Non-operating revenues (expenses)		
Interest income	1,240	1,300
Other	7,766	12,019
Miscellaneous	-	-
Total non-operating revenues (expenses)	<u>9,006</u>	<u>13,319</u>
Other financing sources (uses)		
Operating transfers in (out)	-	10,000
Net income (loss)	(44,947)	(18,438)
Net assets - beginning of year	<u>1,777,880</u>	<u>1,796,318</u>
Net assets - end of year	<u><u>\$1,732,933</u></u>	<u><u>\$1,777,880</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Cash Flows  
Water Fund  
For the years ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers	\$85,674	\$78,505
Payments to suppliers / outsiders	(59,893)	(46,145)
Payments to employees	<u>(22,630)</u>	<u>(24,941)</u>
Net cash provided by operating activities	<u>3,151</u>	<u>7,419</u>
Cash flows from non-capital financing activities:		
Operating transfers in	-	10,000
Cash flows from capital and related financing activities:		
Purchases of fixed assets	-	(44,155)
Cash flows from investing activities:		
Interest income	1,240	1,300
Other	<u>7,766</u>	<u>12,019</u>
Net cash provided by investing activities	<u>9,006</u>	<u>13,319</u>
Net increase (decrease) in cash and cash equivalents	12,157	(13,417)
Cash and cash equivalents - beginning of year	<u>105,552</u>	<u>118,969</u>
Cash and cash equivalents - end of year	<u><u>\$117,709</u></u>	<u><u>\$105,552</u></u>
Cash flows from operating activities:		
Income from operations	(\$53,953)	(\$41,757)
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation	55,770	56,098
(Increase) decrease in:		
Accounts receivable	(1,088)	(7,993)
Increase (decrease) in:		
Accounts payable	2,745	1,020
Accrued expenses	<u>(323)</u>	<u>51</u>
Net cash provided by operating activities	<u><u>\$3,151</u></u>	<u><u>\$7,419</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
February 28, 2005 and February 29, 2004

**AGENCY FUND**

<b>Assets</b>	<u>2005</u>	<u>2004</u>
Cash - payroll account	\$3,731	\$3,209
Cash - tax account	<u>120</u>	<u>87</u>
Total assets	<u><u>\$3,851</u></u>	<u><u>\$3,296</u></u>
<b>Liabilities</b>		
Payroll taxes and other withholdings payable	\$3,731	\$3,209
Due to other funds	<u>120</u>	<u>87</u>
Total liabilities	<u>3,851</u>	<u>3,296</u>
<b>Net assets</b>	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$3,851</u></u>	<u><u>\$3,296</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Schedule of Long-Term Debt  
For The Year Ended February 28, 2005

<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding March 1, 2004</u>	<u>Bond Retired</u>	<u>Bonds Outstanding February 28, 2005</u>
<b>Capital Lease</b>					
<b>Isabella County - Shepherd Sanitary Sewer / Storm Water Separation Project Refunding Bonds Series 1999</b>					
Due March 1,					
1999	4.20	-	-	-	-
2000	4.20	\$30,000	-	-	-
2001	4.20	30,000	-	-	-
2002	4.20	160,000	-	-	-
2003	4.20	160,000	-	-	-
2004	4.20	180,000	-	-	-
2005	4.20	180,000	\$180,000	\$180,000	-
2006	4.20	180,000	180,000	-	\$180,000
2007	4.20	190,000	190,000	-	190,000
2008	4.20	190,000	190,000	-	190,000
2009	4.25	190,000	190,000	-	190,000
2010	4.30	190,000	190,000	-	190,000
2011	4.40	190,000	190,000	-	190,000
2012	4.50	190,000	190,000	-	190,000
2013	4.50	190,000	190,000	-	190,000
2014	4.60	210,000	210,000	-	210,000
Totals		<u>\$2,460,000</u>	<u>\$1,900,000</u>	<u>\$180,000</u>	<u>\$1,720,000</u>

Maturities on March 1, 2006 or prior - non-callable.  
Maturities after March 1, 2006 - redeemed at par.

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Village Council  
Village of Shepherd  
Shepherd, Michigan

We have audited the financial statements of the Village of Shepherd as of and for the year ended February 28, 2005, and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Village of Shepherd's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated May 25, 2005.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Shepherd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the audit committee, management, Village Council, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

May 25, 2005



## MANAGEMENT LETTER

Members of the Village Council  
Village of Shepherd  
Shepherd, Michigan

In planning and performing our audit of the financial statements for the Village of Shepherd for the fiscal year ended February 28, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated May 25, 2005 on the financial statements of the Village of Shepherd.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

ROSLUND, PRESTAGE AND COMPANY, P.C.  
Certified Public Accountants

May 25, 2005

Village of Shepherd  
February 28, 2005

### **Council Oversight**

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Village Council maintain a level of involvement in the financial affairs of the Village to provide appropriate oversight and independent review functions.

### **Bank Statements and Reconciliations**

Internal control is most effective when the bank reconciliation is prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that a member of management, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by employees preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

These procedures should be performed monthly and added to the accounting policies.

We also recommend that a review of the reconciliations be made from time to time by one or more of the board members, typically from the finance committee. In addition, he or she should sign the bank reconciliation that was tested.

### **Street Improvement Debt Service Fund**

The Street Improvement Debt Service Fund consists of a small amount of cash and had no activity for the last fiscal year. We recommend that you close this fund and transfer the remaining cash balance to the other debt service fund.



### **Develop an Accounting Policies and Procedures Manual**

We recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to policies.
- Aid in exchange of management ideas.
- Provide the Village with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

### **Net Assets – Sewer Fund**

In 1999 the Village entered into a capital lease arrangement for the financing of the waste water sanitary improvement facility. The capital lease was recognized in the financial statements as long-term debt and corresponding fixed assets were recorded in the general fixed asset account group. As a result of implementing GASB 34 the long-term debt was moved from the long-term debt account group to the sewer fund. However, the related fixed assets were allocated to both the sewer fund and the water fund, thus creating a deficit in the sewer fund and an excess in the water fund. When the two funds are combined the combined net assets are positive. Both the sewer and water funds are proprietary type funds and are shown both individually and combined in the financial statements. While maintaining separate funds for water and sewer are common they are not required.

We recommend that management review the allocation of fixed assets recorded in both the water and sewer funds, make adjustments to the allocation if necessary, and then record the debt in each fund in proportion to the allocation of the fixed assets acquired with such debt.